AE400-1-4

SECOND MORTGAGE SURVEY
1982

Richard L. Peterson
Briscoe Professor of Bank Management and Finance

Second Mortgage Survey, 1982

Richard L. Peterson*

Abstract:

This report analyzes the responses of National Second Mortgage Association (NSMA) members to requests for information on the association's annual questionnaire and membership application and renewal forms. The membership reports show that NSMA members held over $15 billion in second mortgages outstanding at year-end 1981. In addition, the questionnaire data also provide useful insights into second mortgage growth and loan flows; the average size of second mortgage loans; loan terms; loan delinquencies, losses and chargeoffs; and the profitability of second mortgage lending.

In general, the data indicate that losses on second mortgage lending are still quite low. Average foreclosures were well under one-half of one percent. Furthermore, most lenders reported chargeoff rates below one-third of one percent and total delinquencies (of over 60 days) less than two percent. However, some lenders experienced serious loss and delinquency problems in 1981. Possibly as a result, and also because short-term costs of funds rose sharply while interest returns on second mortgages did not rise as rapidly, second mortgage lending was not profitable for a number of lenders in 1981.

Nonetheless, low profits were not universal. Many lenders made profits on their second mortgage lending. Further, those mortgage bankers who

---

*I. Wylie and Elizabeth Briscoe Professor of Bank Management and Finance, Texas Tech University.

looked to origination and servicing fees rather than interest as a source of profits reported excellent rates of return on equity from their mortgage lending operations in 1981.

Other key data show that most lenders expanded their second mortgage holdings by 17 to 57 percent in 1981. Growth in the average size of second mortgage loans continued during the year, but at a much lower rate than in the past. Thus, growth in loans outstanding primarily reflected the fact that more new loans were made than were liquidated. Possibly because of higher interest rates, second mortgage liquidation rates at most lenders were lower than those computed for 1980. However, exact comparisons are difficult to make because better data allowed liquidation rates to be calculated more precisely in 1981.

The experience of second mortgage lenders varied widely among lender groups. Each reader will need to consult the detailed tables (2A to 6B) to analyze the experience of the lender groups in which he or she is most interested. Separate data are reported for mortgage bankers, commercial banks, bank affiliated finance companies with large holdings of second mortgages, bank affiliated finance companies with smaller holdings of second mortgages, non-bank finance companies with large holdings of second mortgages, non-bank finance companies with smaller holdings of second mortgages, and "all other" respondents (which were primarily savings and loan associations).

Second Mortgage Survey 1982

Richard L. Peterson*

I. Overview:

In recent years the second mortgage market has been growing at a very rapid rate. Yet there has been little hard information available on the nature of the second mortgage market and the terms of second mortgages. Consequently, the National Second Mortgage Association has conducted annual surveys of its members to obtain as much information as possible about the nature of this rapidly expanding market.

The first survey was conducted in 1978 by Peat, Marwick and Mitchell. Subsequently, the present author worked with the National Second Mortgage Association and the Credit Research Center to conduct surveys of second mortgage lenders in 1979, 1980 and 1981. These were published by the Credit Research Center as Working Papers No. 33, 39, and 42---which are available at a price of $6.00 each (plus first class postage if prompt delivery is desired) from the Credit Research Center. This year's survey was mailed out by the NSMA while the author was still affiliated with the Credit Research Center, but the data were processed and the report was prepared only after the author became affiliated with the finance faculty and the Institute for Banking and Financial Studies at Texas Tech University.

The data analyzed in this report were obtained from two sources. First, limited data reported by NSMA members on their membership application and renewal forms were analyzed to determine the size of the market covered by NSMA members and the overall incidence of foreclosure. Those data (reported in Table 1), indicate that NSMA members held over $15 billion in second mortgages at year-end 1981, originated $6.5 billion in

---

*I. Wylie and Elizabeth Briscoe Professor of Bank Management and Finance, Texas Tech University.

Table 1: Second Mortgage Outstandings, Originations, and Foreclosures - as Reported on NSMA Membership Application and Renewal Forms

Item	Total for All Respondents (or overall average)	Average per Respondent	Maximum Value	Number of Respondents
A. Outstanding Loans				
1. Number	1.13 million	15,068	127,922	75
2. Net Amount	$15.24 billion	$203 million	$2.12 billion	75
3. Average Size	$13,486 [1]	$19,799 [2]	$207,442	74
B. Originations in past year				
1. Number	401,154	5,349	52,401	75
2. Net Amount	$6.51 billion	$87 million	$953 million	75
3. Average Size	$16,220 [1]	$22,895 [2]	$191,773	74
C. Foreclosures				
1. Number Foreclosed	4876	69	1899	71
2. Average Foreclosure rate	0.43% [1]	0.746% [2]	9.82%	71

[1] Average Value (or rate) per loan.

[2] The average is not weighted by the number of loans. It is a simple average of the averages reported by each individual respondent. Thus lenders with large average values inflate these figures.

second mortgages during 1981, and foreclosed on 4,876 or 0.43% of their outstanding loans during 1981.

The second source of data was far more detailed. The data were reported by 56 NSMA members who responded to a questionnaire distributed by the NSMA. The data provided in those questionnaires provide valuable insights into the nature of growth in the second mortgage market; second mortgage loan refinancings, repayments, and cash flows; secondary market participation by NSMA members; second mortgage loan sizes and terms; second mortgage delinquency ratios, foreclosures, and chargeoffs; and factors affecting the profitability of second mortgage lending.

Due to improvements in the questionnaire and considerable care taken by most, but not all, of the respondents, the data reported in this survey are far more comprehensive, and should be more reliable than some of the data reported in previous surveys. The data were improved four ways. First, reports based on 1977 and 1978 data were able to distinguish the behavior of second mortgage lenders only by the size of their second mortgage holdings, while reports using 1979 and 1981 data made more useful distinctions based on the type of lender. However, this report provides separate information both by type of lender and, where sufficient numbers of lenders reported, by the size of their loan holdings. Second, delinquency rates reported in previous years were in some cases suspect as not all lenders reported delinquency rates solely for second mortgage loans. In this survey, however, all delinquency rate data reported apply only to second mortgage loan portfolios. Third, in previous surveys it was not possible to distinguish accurately between net and gross loan extensions and outstandings. Consequently, cash flow and repayment rate data frequently could not be well estimated (as no actual cash flow occurs when

"unearned finance charges" are booked as part of credit extensions). In this survey, however, detailed data were available on the type of accounting used as well as on both net and gross flows. Consequently, better estimates could be made of loan repayment rates. Finally, this survey provides a more detailed tabulation of sources of profits for second mortgage lenders of various types than has been previously available.

However, there were still some reporting problems associated with the survey. First many of the largest holders, including many large banks (most of whom had newly joined the NSMA), did not report on the questionnaire. Consequently, the data reported on the questionnaire apply to only about sixty percent of the second mortgage holdings reported on the membership application and renewal forms. Second, a number of reporters (particularly depository institutions, but also many large unaffiliated finance companies) were unable to isolate data relating solely to second mortgages from their other operating data. This caused numerous observations to be omitted as either no data were provided or the author concluded that the data provided were either unreasonably large or unreasonably small.

The remainder of this report summarizes data obtained from the 1982 NSMA questionnaire. The data relate to outstanding second mortgage stocks as of December 31, 1981, and to second mortgage transactions during 1981. Because of the distinct nature of different financial entries, data are reported separately for the following categories of reporters:

(1) Bank-affiliated finance companies holding under $100 million in outstanding second mortgages

(2) Bank-affiliated finance companies holding $100 million or more in outstanding second mortgages

(3) Other finance companies holding under $100 million in second

mortgages

(4) Other finance companies holding $100 million or more in second mortgages

(5) Mortgage bankers

(6) Commercial banks and

(7) Other lenders (three savings and loan associations and one mortgage broker).

II. Loan Volume and Outstandings - Summary Tabulations

Some key data reported in the survey questionnaire are summarized for each type of lender in Tables 2A and 2B. Much more detailed and analytical data follow in Tables 3A through 6B.

In Tables 2A and 2B, summary data are compiled for each of the seven groups analyzed as well as for the sample as a whole. The number of members in each group of respondents is given in parentheses at the top of each column.

In the top half of the table, for each item the sum of all data reported by all members in each group of respondents is reported in the table, and the number of respondents is recorded in parentheses beside each item. Totals for all respondents are reported in the right hand column of Table 2B.

In the bottom half of the table, key ratios are computed by taking the ratios of summary data reported in the top half of the table. These ratios may be inaccurate if the number of respondents for each data item differ. However, they are the only data reported that refer to dollar weighted averages for sums of all data reported by all respondents. All other data

Table 2A: Loan Volume and Outstandings

	Bank Affiliated Finance Companies		Other Finance Companies	
	Small Holders (8)	Large Holders (9)	Small Holders (9)	Large Holders (11)
Outstandings				
Number	52,414 (7)	105,147 (80)	32,709 (9)	449,083 (9)
Gross Value	$303.3 mil. (6)	$1,704.7 mil. (8)	$357.7 mil. (7)	$6,049.9 mil. (8)
Net Value	$327.9 mil. (7)	$1,360.5 mil. (8)	$283.7 mil. (9)	$5,393.2 mil. (9)
Originations				
Number	25,247 (8)	46,553 (8)	14,752 (9)	241,446 (10)
Gross Value	$181.4 mil. (7)	$595.4 mil. (5)	$228.6 mil. (7)	$2,134.0 mil. (6)
Net Value	$176.8 mil. (8)	$732.5 mil. (8)	$133.7 mil. (7)	$2,906.0 mil. (9)
Refinancings	$23.7 mil. (7)	$66.0 mil. (3)	$39.8 mil. (9)	$824.7 mil. (6)
Foreclosures				
Number	216 (8)	406 (9)	83 (70)	1,221 (9)
Value	$6.91 mil. (7)	$9.14 mil. (9)	$1.14 mil. (7)	$26.85 mil. (8)
Serviced Loans				
Number	125 (1)	187 (2)	366 (3)	9,427 (3)
Net Value	$2.8 mil. (1)	$4.0 mil. (2)	$6.0 mil. (3)	$91.8 mil. (3)
Purchased Loans				
Number	481 (3)	7,232 (5)	3,219 (4)	16,152 (4)
Net Value	$5.0 mil. (3)	$46.4 mil. (3)	$27.1 mil. (40)	$315.2 mil. (5)
Loans Sold				
Number	-----	492 (2)	488 (2)	7,854 (2)
Net Value	-----	$14.1 mil. (2)	$5.7 mil. (2)	$119.9 mil. (2)
Average Size (Net Outstandings)	$6,256	$12,939	$8,674	$12,009
Average Size (New Loans)	$7,003	$15,735	$9,063	$12,036
Refinancings/ Net Extensions	13.4%	9.0%	29.8%	28.4%
(#) Serviced Loans (% of Outstandings)	0.24%	0.18%	1.12%	2.10%
(#) Purchased Loans (% of Originations)	1.91%	15.53%	15.04%	6.69%
(#) Loans Sold (% of Originations)	0.00%	1.06%	3.31%	3.25%
(#) Foreclosures (% of Outstandings)	0.41%	0.39%	0.25%	0.27%

Table 2B: Loan Volume and Outstandings

	Mortgage Banks (10)	Commercial Banks (5)	Other (S & L's) (4)	All Respondents
Outstandings				
Number	23,768 (8)	8,327 (5)	30,194 (3)	701,642 (49)
Gross Value	$329.9 mil. (5)	$39.3 mil. (4)	$13.3 mil. (1)	$8,798.1 mil. (39
Net Value	$285.1 mil. (8)	$59.9 mil. (4)	$561.2 mil. (3)	$8,271.5 mil. (48
Originations				
Number	12,087 (10)	2,548 (5)	17,782 (4)	360,415 (54)
Gross Value	$54.7 mil. (4)	$10.3 mil. (3)	-----	$3,204.4 mil. (32
Net Value	$220.8 mil. (10)	$27.4 mil. (4)	$426.3 mil. (4)	$4,623.5 mil. (50
Refinancings	$5.34 mil. (3)	$0 mil. (2)	$0.95 mil. (1)	$960.5 mil. (31)
Foreclosures				
Number	98 (9)	14 (4)	155 (3)	2,193 (49)
Value	$2.46 mil. (10)	$0.18 mil. (4)	$3.90 mil. (3)	$132.8 mil. (48)
Serviced Loans				
Number	11,597 (6)	-----	319 (1)	22,021 (16)
Net Value	$141.5 mil. (6)	-----	$1.9 mil. (1)	$248 mil. (16)
Purchased Loans				
Number	480 (2)	-----	7,348 (1)	33,912 (19)
Net Value	$8.5 mil. (2)	-----	$171.9 mil. (1)	$541.1 mil. (18)
Loans Sold				
Number	3,891 (5)	-----	475 (2)	13,200 (13)
Net Value	$34.4 mil. (5)	-----	$15.4 mil. (2)	$189.4 mil. (13)
Average Size (Net Outstandings)	$11,995	$7,194	$18,587	$11,788
Average Size (New Loans)	$18,268	$10,754	$23,974	$12,828
Refinancings/ Net Extensions	2.4%	0%	0.2%	20.8%
(#) Serviced Loans (% of Outstandings)	48.79%	0%	1.06%	3.14%
(#) Purchased Loans (% of Originations)	3.97%	0%	41.32%	9.41%
(#) Loans Sold (% of Originations)	32.19%	0%	2.67%	3.66%
(#) Foreclosures (% of Outstandings)	0.41%	0.17%	0.51%	0.31%

reported in the study refer to either averages per institution or to median values. In those computations each institution's statistics are given equal weight, while at the bottom of Tables 2A and 2B, each loan, or each dollar of outstandings (as the case may be) is given equal weight.

Key statistics reported in Table 2 indicate that 49 survey respondents held over 700,000 second mortgages worth more than $8 billion at year-end 1981.

Originations of second mortgages in 1981 totaled slightly more than half the number and net value of second mortgage loans reported outstanding at year-end. The average size of net second mortgage holdings reported was $11,788 for mortgages outstanding at year-end and $12,828 for second mortgage originations during 1981.

Refinancings accounted for slightly more than 20% of reported mortgage loan originations in 1981. Refinancings were most common at non-bank finance companies (which carried the largest weight in the sample), were somewhat less common at bank-affiliated finance companies, and were relatively rare or non-existent at mortgage bankers and depository institutions.

Secondary market activity was not widespread, but it was not insignificant either. Sixteen respondents reported servicing second mortgage loans for others. The number of loans serviced, at 22,000, equalled slightly more than three percent of the number of loans outstanding. The number of loans sold, reported as 13,200 by 13 respondents, equalled slightly less than four percent of the number of new loans originated in 1981. Unsurprisingly, mortgage bankers were the most active sellers of loans. Interestingly, more NSMA members reported purchasing loans than reported selling them. The number of loans purchased was reported as 33,912 by 19 respondents. That equalled 9.4% of the amount of loans originated in 1981.

Second mortgage purchase activity was most prevalent at savings and loan associations and finance companies. However, one finance company had purchased its entire portfolio.

In addition to loan stock and flow data, Tables 2A and 2B also provide summary data on total foreclosures. Respondents to the questionnaire reported 2,193 foreclosures, which equalled 0.31% of their second mortgage loans outstanding at year-end. The actual foreclosure risk is undoubtedly somewhat higher than that because many new loans were originated during the year. Tables 6A and 6B provide more details on foreclosures.

III. Second Mortgage Growth and Flows

The amount of second mortgage loan holdings reported by NSMA members was much larger at year-end 1981 than at the end of 1980 ($15 billion versus $8 billion). However, such comparisons do not accurately measure growth because some new NSMA members with very large holdings of second mortgages joined the NSMA in 1981. In order to measure growth more precisely, the growth rates of individual firms were calculated by comparing 1981 data reported on the questionnaire to equivalent data reported for 1980. Those comparisons are reported in Tables 3A and 3B.

Tables 3A and 3B report separate data for each of the seven groups of respondents to the survey. For each item of information, a median (or middle) value is given. Following that, the number of respondents in each group which reported reasonable values is provided in parentheses. Finally, below that, also in parentheses, the range of reasonable responses is provided. The low value is on the left side of the parentheses. All succeeding tables use these same data reporting conventions.

The growth data reported in Tables 3A and 3B indicate that most respondents experienced a substantial increase in loans outstanding in 1981. Only a few groups had members whose loans outstanding had declined. Meanwhile, median growth rates ranged from 17% to 57% at most lenders with even higher growth rates reported by savings and loans. In contrast with earlier years, growth rates at most lenders were not strongly affected by growth in the average size of loans held. Instead, the rapid growth primarily reflected growth in the number of loans held.

Growth in the rate of loan originations was not nearly as rapid as growth in the amount of loans outstanding. Net originations actually declined for a number of respondents, as many did not make as many second mortgage loans in 1981 as in 1980. However, the average size of new loans generally rose. Further, possibly because of some slowing in repayment rates, the volume of extensions generally exceeded the volume of repayments. Consequently, outstanding stocks of second mortgages grew rapidly even though the number of new loan originations grew only modestly at most lenders. Once again, savings and loan associations were a notable exception as their loan extensions grew at a very high rate.

Repayment rates on second mortgage loans could be calculated more accurately than in previous years due to greater data availability. The data indicated that loan repayment rates in 1981 were lower than in 1980--possibly because rising interest rates or a depressed housing market made it less attractive or more difficult for borrowers to prepay their loans.

Comprehensive repayment rates included scheduled amortization, prepayments, and renewals expressed as a percentage of average balances

outstanding. Cash repayment rates were similar except they did not allow for renewals--since no cash need change hands in that case.

Median repayment rates on a net basis were generally between 30% and 40% of average outstandings in 1981. In contrast, in 1980, the median repayment rate reported for all lenders was 44.8 %.[1] After refinancings (which accounted for 20 to 30% of most finance company loan originations) were taken into account, cash repayment rates at most lenders most commonly ranged from 10% to 40%--and the highest rate reported was 63.3%. Cash repayment rates in general were considerably lower than calculated rates of cash repayment in 1980. In 1980 however, repayment rates were not adjusted for the effect of second mortgage loan purchases and sales. In 1981, in contrast, repayment rates (RR) were calculated as RR=(Extensions + Outstandings at end of previous year + Purchases - Sales - Outstandings at end of current year)/Average Outstandings in 1981.

The final data reported in Tables 3A and 3B indicate that, as was true in previous years, the vast majority of second mortgage loans were made to households. In cases where over half of the respondents reported making no business loans, the average percentage of business loans reported by each institution is given in parentheses instead of a median value (which would equal zero and therefore provide little new information). In addition, the last line in the table shows that purchase money second mortgages accounted for less than half of total second mortgage originations at all respondents. In fact, for the vast majority of respondents, second mortgages were rarely made to finance a consumer's acquisition of a new house.

---

[1]See Richard L. Peterson, Marc Van Doorne and Margaret Woo, "Second Mortgage Survey, 1981," Credit Research Center, Working Paper No. 42, Purdue University, 1982.

Table 3A: Growth and Loan Flows

	Bank Affiliated Finance Companies		Other Finance Companies	
	Small Holders (8)	Large Holders (9)	Small Holders (9)	Large Holders (11)
Growth in:				
Net Outstandings($)	+17.2% (6) (7.8 to 31.2%)	+56.9% (7) (23 to 101%)	+25.6% (8) (-20.7 to 143%)	+31.9% (6) (1.3 to 144%)
Number of Outstandings	+10.3% (6) (4.6 to 18.5%)	+36.1% (6) (21 to 71%)	+18.8% (7) (-17.9 to 126%)	+26.2% (6) (0.9 to 78.8%)
Average Size of Net Outstandings	+3.1% (5) (-0.2 to 20.2%)	+13.6% (6) (-2.7 to 26%)	+2.8% (8) (-21.8 to 32%)	+9.3% (6) (-0.9 to 36.6%)
Net Originations ($)	-6.9% (6) (-30.8 to 33.7%)	+50.2% (5) (-33.2 to 228%)	+80% (4) (38.2 to 209%)	+13.4% (7) (-56.0 to 32.0%
Number of Originations	-10.0% (6) (-47.4 to 34.6%)	+28.8% (6) (-31.8 to 96.2%)	+29.8% (7) (-39.6 to 175%)	+4.4% (8) (-56 to 225%)
Average Size of Originations	+6.3% (6) (-1.2 to 95.6%)	+4.6% (5) (-2.0 to 130%)	+27% (3) (6.5 to 164%)	+0.6% (7) (-10.8 to 17.6%
Repayments				
Refinancings %, Net Basis	29.6% (4) (5.5 to 41.4%)	0% (4) (0.00 to 6.7%)	28.7% (4) (0.00 to 59.0%)	25.6% (5) (21.1 to 65.7%)
Refinancings %, Gross Basis	12.7% (3) (8.0 to 16.1%)	18.7% (2) (9.7 to 27.6%)	11.5% (4) (8.4 to 29.2%)	----- -----
Repayment Rate, Net Basis	35.3% (7) (19.8 to 66.1%)	22.3% (8) (16.5 to 50.1%)	57.8% (6) (14.2 to 70.4%)	31.6% (6) (20.4 to 58.3%)
Repayment Rate, Gross Basis	30.8% (5) (25.0 to 54.0%)	29.1% (5) (16.3 to 35.8%)	55.7% (4) (45.8 to 71.5%)	12.9% (2) (3.7 to 22.0%)
Cash Repayments, Net Basis	19.7% (7) (9.8 to 61.7%)	17.9% (4) (16.5 to 26.4%)	22.6% (5) (21.4 to 63.3%)	27.0% (5) (9.5 to 42.3%)
Purchase Money Loans				
Percent of Originations	4.3% (6) (0.00 to 12%)	10% (6) (0.00 to 40%)	0.48% (4) (0.00 to 40%)	0% (3) (0.00 to 40%)
Percentage Business Loans				
Based on Dollars	(Avg. 8.7%) (7) (0.00 to 57.8%)	(Avg. 8.2%) (7) (0.00 to 30.1%)	20.0% (1)	(Avg. 3.1%) (7) (0.00 to 18.8%)
Based on Numbers	(Avg. 4.2%) (7) (0.00 to 28.0%)	(Avg. 6.2%) (6) (0.00 to 27.0%)	19.8% (1)	(Avg. 1.4%) (7) (0.00 to 9.2%)

Table 3B: Growth and Loan Flows

	Mortgage Banks (10)	Commercial Banks (5)	Other (S & L's) (4)
Growth in:			
Net Outstandings($)	+43% (6) (-6.3 to 204%)	+46.8% (3) (11.8 to 68.6%)	+595% (2) (359 to 831%)
Number of Outstandings	+33% (6) (-8.0 to 111%)	+22.2% (4) (0.8 to 64.3%)	531% (2) (419 to 643%)
Average Size of Outstandings	+19% (6) (0.8 to 44%)	+3.0% (3) (2.6 to 9.8%)	+6.9% (2) (-11.4 to 25.3%)
Net Originations ($)	-5.5% (5) (-21.6 to +107%)	-13.2% (2) (-23.7 to -2.7%)	+679% (3) (334 to 2077%)
Number of Originations	-2% (6) (-25.7 to 108%)	-9.6% (3) (-20.5 to 3.8%)	580% (3) (315 to 840%)
Average Size of New Loans	+11.6% (5) (5.5 to 56%)	+1.8% (2) (-4.0 to 7.7%)	+14.6% (3) (4.6 to 131.6%)
Repayments			
Refinancings %, Net Basis	(Avg. 2.2%) (9) (0.00 to 15.0%)	0% (3) -----	0.25% (1) -----
Refinancings %, Gross Basis	2.0% (1) -----	0% (1) -----	----- -----
Repayment Rate, Net Basis	36.6% (4) (13.9 to 60.0%)	15.5% (3) (10.4 to 38.5%)	38.5% (2) (24.1 to 53.2%)
Repayment Rate, Gross Basis	46.7% (2) (44.0 to 49.5%)	27.9% (3) (15.5 to 36.9%)	----- -----
Cash Repayments, Net Basis	23.0% (4) (13.9 to 26.0%)	15.5% (3) (10.4 to 38.5%)	38.3% (2) (24.1 to 52.9%)
Purchase Money Loans			
Percent of Originations	(Avg. 5.5%) (6) (0.00 to 32%)	22.5% (2) (0.00 to45%)	6.5% (2) (3.0 to 10%)
Percentage Business Loans			
Based on Dollars	(Avg. 30.3%) (6) (0.00 to 100%)	50% (2) (0.00 to 100%)	0% (1) -----
Based on Numbers	(Avg. 29.9%) (6) (0.00 to 100%)	50% (2) (0.00 to 100%)	0% (1) -----

IV. Loan Sizes and Terms

As shown in Tables 4A and 4B, the average size of second mortgage loans held and made varied substantially by the type and size of lender. Finance companies with relatively small second mortgage holdings typically held and made much smaller loans than either larger holders of second mortgages or other types of financial institutions. In particular, median responses indicate that the typical "small" finance company had an average new loan size of $8,816 if it were not affiliated with a bank and $11,626 if it were affiliated with a bank. In contrast, finance companies that were "larger" holders had median loan sizes of $14,138 for those not affiliated with banks and $17,581 for those affiliated with banks. Other institutions had median new loan sizes that ranged from $14,399 at reporting commercial banks to $24,186 at savings and loan associations.

Second mortgage loans made to business were substantially larger than those made to households. The average size of business loans ranged from $14,509 at the firm that made the smallest business loans to $284,781 at the firm that made the largest second mortgages to business. The other eight firms had an average business loan size of $56,000 plus or minus $30,000--with an average size of $54,000.

The average size of loans serviced, purchased, and sold varied widely among respondents. Probably different respondents specialized in different types of markets--such as purchasing, selling, or servicing small consumer loans (such as home improvement loans), large home purchase loans, or business loans.

The average maturity of second mortgages also varied widely-- from a minimum of 42 months to a maximum of 157.1 months. Most commonly, second

Table 4A: Loan Sizes and Terms

	Bank Affiliated Finance Companies		Other Finance Companies	
	Small Holders	Large Holders	Small Holders	Large Holders
Average Loan Sizes	(8)	(9)	(9)	(11)
Net Outstandings	$10,495 (6) (8,495 to 25,300)	$13,732 (8) (7,769 to 27,024)	$7,922 (9) (5,749 to 26,458)	$13,517 (9) (7,773 to 41,973)
New Originations, Net	$11,626 (7) (7,823 to 26,954)	$17,581 (8) (12,161 to 33,160)	$8,816 (7) (3,804 to 12,643)	$14,138 (9) (8,674 to 49,328)
Loans to Households	$11,311 (6) (8,974 to 12,799)	$16,869 (6) (1,513 to 35,500)	$14,362 (5) (3,842 to 27,988)	$15,339 (3) (13,956 to 18,328
Loans to Business	$34,944 (2) (26,000 to 43,889)	$55,464 (2) (35,912 to 75,016)	$14,509 (1)	$63,838 (2) (42,065 to 85,611
Serviced Loans, Net	$14,399 (1)	$116,046 (2) (13,804 to 218,288)	$30,887 (2) (10,959 to 50,815)	$7,500 (3) (3,272 to 13,280)
Loans Purchased, Net	$6,804 (3) (6,123 to 10,435)	$17,841 (3) (6,286 to 39,697)	$14,733 (4) (4,282 to 24,907)	$15,813 (4) (2,554 to 41,882)
Loans Sold, Net	$0 0	$30,856 (2) (28,730 to 32,983)	$11,867 (2) (11,524 to 12,209)	$15,240 (2) (13,346 to 17,134
Loan Terms				
Average Maturity	74.5 mo. (6) (42 to 101 mo.)	108 mo. (7) (60 to 157.1 mo.)	72.5 mo. (6) (60 to 120 mo.)	107.13 mo. (6) (30 to 123 mo.
Loan to Value Ratio (Maximum)	80% (6) (70 to 85%)	85% (7) (60 to 90%)	80% (5) (80 to 85%)	77.5% (6) (75 to 80%)
Loan to Equity Ratio (Average)	70% (5) (65 to 85%)	72.5% (6) (65 to 80%)	72.5% (4) (63.6 to 75%)	67.5% (4) (27 to 80%)

Table 4B: Loan sizes and Terms

	Mortgage Bankers	Commercial Banks	Others (S & L's)
Average Loan Sizes	(10)	(5)	(4)
Net Outstandings	$18,305 (8) (6,824 to 50,432)	$12,815 (4) (5,977 to 18,190)	$30,274 (2) (18,181 to 42,367)
New Originations, Net	$19,609 (10) (5,874 to 183,427)	$14,399 (4) (9,017 to 21,080)	$24,186 (4) (18,035 to 41,425)
Loans to Households	$23,834 (4) (16,485 to 36,571)	$16,717 (1)	$35,613 (1)
Loans to Business	$183,301 (2) (81,821 to 284,781)	$39,000 (1)	(0)
Serviced Loans, Net	$14,680 (6) (10,796 to 37,534)	(0)	(0)
Loans Purchased, Net	$21,324 (2) (15,962 to 26,686)	(0)	$23,397 (1)
Loans Sold, Net	$17,351 (5) (3,052 to 45,726)	(0)	$24,838 (1)
Loan Terms			
Average Maturity	81 mo. (6) (34 to 111 mo.)	72 mo. (2) (60 to 84 mo.)	130 mo. (1)
Loan to Value Ratio (Maximum)	80% (5) (76 to 90%)	80% (2) (80 to 80%)	90% (3) (80 to 90%)
Loan to Equity Ratio (Average)	70.75% (4) (66 to 90%)	39% (2) (8 to 70%)	73.39% (3) (20 to 80%)

mortgage loans seemed to have maturities of six to nine years--with many made as short as 5 years and some made as long as ten to fifteen years.

Maximum loan to value ratios ranged from 60% to 90%, with most lenders using an 80% requirement. Loan to equity ratios were lower than loan to value ratios because preexisting (first) mortgages had prior claim on the value of the property. Reported loan to equity ratios changed from eight to 90%, with most around 70%.

Overall, loan terms appeared to have changed very little from 1980. While average loan sizes often were slightly larger, typical loan maturities and loan-to-value ratio requirements appeared to be little changed. However, beacuse some tightening of loan terms had occurred in 1980, loan terms in 1981 (particularly loan-to-value ratios) probably were slightly more restrictive than they had been in 1979.

V. Profitability of Second Mortgage Lending

Tables 5A, 5B, 5C, and 5D summarize the data relating to the profitability of second mortgage lending. Because many respondents were not able to provide the requested information for second mortgage holdings, per se, they were asked to provide similar information for their full portfolio. This procedure had several advantages. First, some key ratios, such as costs of borrowed funds and debt-to-equity ratios probably are most appropriate when they are measured for the full portfolio. Second, for those institutions that could provide independent data for second mortgages and their full portfolios, it allows the relative levels of interest yields, profitability, and non-interest revenue sources (such as origination fees, service charges, and insurance) to be compared.

Overall, the data indicate that second mortgage lending generally was not as profitable in 1981 as in preceding years. Many lenders (including the majority of all finance companies and one "mortgage banker" who held substantial amounts of receivables) had negative returns on equity for their second mortgage lending operations in 1981.

The only lender group to show a high median return on equity was the mortgage banker group. The majority of mortgage bankers were profitable because they had some of the lowest debt-to-equity ratios and relatively high ratios of service fees, origination fees, and insurance fees to gross returns. The least profitable mortgage banker was the one that obtained the vast majority of its income from interest rather than fees.

The profitability of second mortgage lending was reduced in 1981 because, for most lenders, average costs of debt were relatively high. Looking at full portfolio debt costs, median interest costs varied from 9.9% (at a large non-bank finance company) to 25.5% (at a mortgage banker). Only "large" finance companies generally had relatively low costs of debt (with a median cost of 12.2% for non-bank finance companies and a median cost of 13.8% for "large" bank affiliated finance companies). Finance companies that held smaller amounts of second mortgages generally had higher borrowing costs (with a median cost of 14.0% for non-bank affiliated companies and a median cost of 15.4% for bank affiliated companies) while mortgage bankers had the highest borrowing costs of all (with a median cost of 17.5%). Clearly, those companies that had large amounts of low cost long-term debt outstanding (such as non-bank finance companies) had the lowest average interest costs while those which traditionally use short-term financing (such as mortgage bankers) paid the highest interest rates.

Table 5A: Profitability Factors

	Bank Affiliated Finance Companies			
	Small Holders		Large Holders	
Debt Ratios	Seconds Only	Full Portfolio	Seconds Only	Full Portfolios
Interest Paid/ Average Debt	16.3% (3) (15.0 to 17.0%)	15.4% (6) (14.3 to 17.0%)	13.1% (4) (11.56 to 14.07%)	13.8% (7) (11.6 to 17.9%)
Debt/Equity Ratio	13.7 (2) (11.2 to 16.1)	5.7 (6) (4.8 to 16.1)	5.6 (4) (4.4 to 15.7)	4.8 (7) (0.5 to 15.7)
Debt/Average Receivables	85.9% (3) (79.3 to 93.0%)	83.5% (5) (75.9 to 125%)	91.3% (4) (81.5 to 94.7%)	79.2% (4) (64.0 to 91.0%)
Returns				
Gross Returns/ Avg. Receivables	17.8% (3) (14.4 to 18.9%)	21.1% (5) (15.9 to 23.2%)	18.4% (3) (13.5 to 18.8%)	20.0% (5) (11.8 to 23.0%)
Interest Returns/ Avg. Receivables	14.1% (3) (13.4 to 17.9%)	18.0% (5) (15.4 to 21.3%)	18.0% (5) (12.5 to 26.6%)	16.4% (4) (11.0 to 19.1%)
Interest Returns/ Gross Returns	94.3% (3) (75.4 to 98.0%)	85.7% (6) (64.5 to 96.9%)	98.1% (3) (93.1 to 100%)	93.2% (6) (82.6 to 94.2%)
Service Fee/ Gross Returns	-----(0) -----	-----(0) -----	-----(0) -----	0.01% (2) (0.009 to 0.01%
Origination Fee/ Gross Returns	8.9% (2) (0.3 to 17.4%)	5.1% (2) (0.7 to 9.4%)	2.5% (1) -----	2.7% (2) (2.5 to 2.9%)
Broker Fee/ Gross Returns	-----(0) -----	-----(0) -----	-----(0) -----	-----(0) -----
Insurance Fee/ Gross Returns	3.13% (3) (0.3 to 3.8%)	17.9% (6) (1.1 to 35.5%)	2.2% (2) (1.9 to 2.5%)	4.9% (7) (0.2 to 10.6%)
Net Profits/ Avg. Receivables	+0.13% (3) (-2.8 to 2.4%)	+0.7% (6) (-3.1 to 11.5%)	-0.02% (2) (-0.6 to 0.6%)	-0.5% (7) (-3.4 to 4.5%)
Pretax Return on Equity	-8.3% (2) (-48.2 to 31.6%)	+5.2% (6) (-33.4 to 193%)	-3.4% (2) (-10.2 to 3.3%)	-2.0% (6) (-10.2 to 21.4%
Profits/Gross Returns	0.75% (3) (-19.3 to 12.8%)	3.1% (6) (-13.7 to 10.9%)	-0.7% (2) (-4.4 to 3.0)	-2.3% (7) (-8.3 to 22.8%)

Table 5B: Profitability Factors

	Other Finance Companies			
	Small Holders		Large Holders	
Debt Ratios	Seconds Only	Full Portfolio	Seconds Only	Full Portfolios
Interest Paid/ Average Debt	19.9% (3) (12.1 to 20.4%)	14.00% (5) (10.86 to 19.91%)	12.8% (3) (9.8 to 14.5%)	12.2% (9) (9.9 to 14.5%)
Debt/Equity Ratio	77.2 (1) -----	3.51 (4) (0.84 to 7.40)	8.4 (3) (7.0 to 32.6)	6.5 (10) (.25 to 32.6)
Debt/Average Receivables	84.8% (4) (40.0 to 164.3%)	82.2% (5) (20.3 to 85.0%)	116% (3) (91.9 to 157%)	105% (10) (44 to 216%)
Returns				
Gross Returns/ Avg. Receivables	18.3% (5) (2.4 to 47.7%)	24.2% (6) (19.0 to 37.6%)	20.5% (3) (19.9 to 24.6%)	21.9% (7) (9.3 to 33.9%)
Interest Returns/ Avg. Receivables	20.00% (7) (17.2 to 38.5%)	19.28% (6) (12.2 to 27.0%)	18.35% (2) (17.0 to 19.7%)	20.6% (8) (14.5 to 27.6%)
Interest Returns/ Gross Returns	97.8% (4) (80.7 to 100%)	78.5% (6) (64.0 to 94.5%)	91.0% (2) (82.7 to 99.2%)	85.6% (7) (81.3 to 99.9%)
Service Fee/ Gross Returns	-----(0) -----	-----(0) -----	0% -----	0% -----
Origination Fee/ Gross Returns	2.15% (2) (2.06 to 2.23%)	-----(0) -----	1.6% (1) -----	0.06% (3) (0.02 to 2.2%)
Broker Fee/ Gross Returns	-----(0) -----	-----(0) -----	0% -----	0.16% (1) -----
Insurance Fee/ Gross Returns	19.3% (1) -----	11.66% (6) (3.7 to 28.3%)	7.7% (2) (0.7 to 14.7%)	9.8% (6) (0.08 to 18.7%)
Net Profits/ Avg. Receivables	0.70% (2) (-5.9 to 7.3%)	0.55% (6) (-3.2 to 4.5%)	-0.4% (3) (-1.6 to 7.8%)	1.5% (9) (-1.6 to 4.5%)
Pretax Return on Equity	-6.26% (2) (-26.6 to 14.1%)	1.48% (5) (-29.6 to 23.8%)	-3.6% (3) (-34.1 to 47.2%)	5.44% (10) (-34.1 to 47.2%
Profits/Gross Returns	13.79% (2) (-12.4 to 39.9%)	2.21% (6) (-16.7 to 12.0%)	-1.9% (3) (-8.3 to 31.7%)	6.3% (7) (-7.5 to 31.7%)

Table 5C: Profitability Factors

	Mortgage Banks		Commercial Banks	
Debt Ratios	Seconds Only	Full Portfolio	Seconds Only	Full Portfolios
Interest Paid/ Average Debt	15.8% (3) (15.7 to 25.5%)	17.5% (6) (12.6 to 25.5%)	----- -----	----- -----
Debt/Equity Ratio	3.3 (4) (0.00 to 13.1)	4.9 (7) (0.00 to 38.4)	1.1 (1) -----	0.01 (1) -----
Debt/Average Receivables	77.0% (3) (0.00 to 94.5%)	70.0% (6) (0.00 to90.7%)	----- -----	0.5% (1) -----
Returns				
Gross Returns/ Avg. Receivables	50.8% (4) (14.1 to 81.7%)	37.4% (7) (12.8 to 94.0%)	19.7% (1) -----	----- -----
Interest Returns/ Avg. Receivables	16.27% (4) (12.3 to 27.6%)	12.4% (7) (7.2 to 32.3%)	17.9% (1) -----	----- -----
Interest Returns/ Gross Returns	37.8% (4) (23.3 to 96.2%)	34.4% (7) (19.3 to 96.2%)	91.1% (1) -----	91.35% (1) -----
Service Fee/ Gross Returns	3.6% (4) (0.00 to 13.0%)	4.8% (7) (0.00 to 33.5%)	0% (1) -----	----- -----
Origination Fee/ Gross Returns	3.3% (4) (0.00 to 26.3%)	20.4% (7) (0.00 to 66.0%)	0% (1) -----	----- -----
Broker Fee/ Gross Returns	5.9% (4) (0.00 to 39.0%)	3.2% (7) (0.00 to 37.3%)	0% (1) -----	----- -----
Insurance Fee/ Gross Returns	1.9% (4) (0.00 to 25.7%)	1.4% (7) (0.00 to 25.7%)	0% (1) -----	----- -----
Net Profits/ Avg. Receivables	15.9% (4) (-2.9 to 26.6%)	7.6% (7) (-2.7 to 20.2%)	----- -----	8.06% (1) -----
Pretax Return on Equity	27.2% (4) (-40.8 to 57.4%)	41.1% (7) (-40.8 to 217%)	----- -----	17.6% (1) -----
Profits/Gross Returns	26.2% (4) (-20.9 to 50.2%)	15.3% (7) (-20.9 to 52.3%)	----- -----	----- -----

Table 5D: Profitability Factors

	Other (Savings and Loans)	
	Seconds Only	Full Portfolios
Debt Ratios		
Interest Paid/ Average Debt	-----	12.39% (1)
Debt/Equity Ratio	-----	-----
Debt/Average Receivables	-----	18.9% (1)
Returns		
Gross Returns/ Avg. Receivables	-----	11.82% (1)
Interest Returns/ Avg. Receivables	-----	10.43% (1)
Interest Returns/ Gross Returns	-----	88.2% (1)
Service Fee/ Gross Returns	45.2% (1)	-----
Origination Fee/ Gross Returns	48.1% (1)	9.3% (1)
Broker Fee/ Gross Returns	-----	-----
Insurance Fee/ Gross Returns	6.7% (1)	2.6% (1)
Net Profits/ Avg. Receivables	0.3% (1)	-0.2% (1)
Pretax Return on Equity	-----	-----
Profits/Gross Returns	8.3% (1)	-2.05% (1)

While return on equity was often negative in 1981, this was often true of both second mortgage lending and other operations. In some cases, as in the case of savings and loan associations, second mortgage lending was more profitable than other operations. In other cases, it was not.

The reduced profits experienced by many lenders on second mortgage lending in 1981 could not be ascribed solely to rising market interest rates because the rate of return on second mortgage portfolios also rose. While the increased interest return would be less than the increase in interest paid by lenders that financed second mortgages with short-term funds, it probably was larger than the increase in interest rates paid by lenders who had long-term low cost financing--provided they did not expand their portfolios. Thus, other factors--such as high delinquency rates (see the next section)--may have contributed to the adverse profit situation for certain lenders.

Interest received on second mortgages (by non-mortgage banks) ranged from 12.5 to 38.5 percent of average second mortgage receivables. Interest returns of 18% or more were common in 1981, while several lenders reported interest returns of 20% or more.

Gross revenues were even higher relative to second mortgages than interest returns. That was so because many lenders were able to augment their gross revenues by charging mortgage origination fees or selling credit insurance. Consequently, interest returns usually accounted for 90 to 98% of gross returns on second mortgages. While this percentage was higher for second mortgage lending than it was for lender's full portfolios, it shows that non-interest sources of revenue were often important.

Overall, then, most second mortgage lenders appeared to increase their gross returns on second mortgages in 1981, but rising costs of funds at many

lenders and other cost factors (possibly rising delinquencies caused by recession and declines in home prices in parts of the country) caused profits to be slim at many lenders. A notable exception was the majority of reporting mortgage bankers, who continued to earn substantial origination and servicing fees while holding few mortgages in their own portfolios.

VI. Loan Delinquencies, Chargeoffs and Foreclosures

The data reported on loan delinquencies in Tables 6A and 6B are not directly comparable to delinquency data in previous years. In prior years, it was not possible to distinguish between delinquencies applicable only to second mortgages if companies erroneously included delinquency rates on non-mortgage loans. This year, however, respondents were asked to report if their delinquency statistics applied only to second mortgages. Only if they indicated that their delinquency statistics applied solely to second mortgages were their reported statistics used to produce Tables 6A and 6B. Consequently, reported delinquency statistics are somewhat lower than in previous years--as delinquency rates tend to be lower on second mortgages than on other consumer loans.

Most commonly, total 60 day plus delinquency rates were relatively low, as most lender groups had median delinquency rates between one and two percent. Delinquency rates reported by commercial banks were even lower. However, several finance companies and mortgage bankers had serious delinquency problems as they reported total delinquency rates of seven to nine percent. A substantial number of delinquencies were relatively long-term as many lenders reported 90 to 180 day delinquencies of one-half per-

Table 6A: Delinquencies, Foreclosures and Chargeoffs

Delinquencies(%)	Bank Affiliated Finance Companies		Other Finance Companies	
	Small Holders	Large Holders	Small Holders	Large Holders
60 days +	1.31% (4) (0.64 to 3.6%)	1.83% (7) (0.03 to 7.8%)	1.1% (7) (0.13 to 9.7%)	1.97% (8) (0.07 to 9.09%)
60-90 days	0.35% (4) (0.22 to 0.9%)	0.67% (7) (0.02 to 1.91%)	0.27% (7) (0.00 to 4.1%)	0.6% (8) (0.00 to 4.21%)
90-180 days	0.57% (4) (0.17 to 1.7%)	0.78% (7) (0.01 to 6.4%)	0.62% (7) (0.62 to 3.4%)	0.71% (8) (0.00 to 4.87%)
180 days +	0.52% (4) (0.00 to 1.0%)	0.27% (7) (0.00 to 0.60%)	0.25% (7) (0.25 to 2.2%)	0 (8) (0.00 to 1.46%)
Foreclosures (as % of)				
Outstandings (#)	0.24% (7) (0.06 to 2.8%)	0.25% (8) (0.06 to 3.5%)	0.01% (7) (0.00 to 1.41%)	0.24% (8) (0.00 to 1.57%)
Year Earlier Outstandings (#)	0.31% (6) (0.07 to 5.2%)	0.26% (6) (0.08 to 4.5%)	0.35% (8) (0.00 to 2.00%)	0.44% (6) (0.00 to 1.59%)
Average Outstandings($)	0.56% (7) (0.1 to 12.4%)	0.36% (9) (0.01 to 3.1%)	0.003% (7) (0.00 to 2.26%)	0.2% (7) (0.00 to 2.28%)
Year Earlier Outstandings ($)	0.61% (6) (0.14 to 7.03%)	0.46% (7) (0.01 to 3.7%)	0.23% (8) (0.00 to 2.91%)	0.50% (6) (0.00 to 2.29%)
Chargeoffs				
Gross Chargeoffs/ Average Outstandings	0.32% (7) (0.18 to 3.15%)	0.15% (8) (0.00 to 0.45%)	0.37% (7) (0.06 to 21.1%)	0.36% (7) (0.1 to 6.1%)
Net Chargeoffs/ Average Outstandings	0.26% (6) (0.16 to 2.78%)	0.13% (7) (0.00 to 0.34%)	0.30% (7) (-0.01 to 16.75%)	0.32% (6) (0.05 to 5.7%)
Recoveries/Gross Chargeoffs	7.65% (6) (3.7 to 11.7%)	7.1% (7) (0.00 to 97.1%)	12.46% (7) (0.00 to 119.1%)	9.8% (7) (0.00 to 15.4%)
Reserves				
As % of Net Outstandings	1.50% (6) (0.71 to 2.32%)	0.97% (7) (0.48 to 2.0%)	1.3% (6) (0.18 to 3.0%)	1.3% (9) (0.5 to 6.8%)
As % of Gross Outstandings	1.27% (6) (0.44 to 11.4%)	0.68% (7) (0.39 to 1.75%)	0.76% (5) (0.15 to 2.0%)	1.0% (8) (0.5 to 5.5%)

Table 6B: Delinquencies, Foreclosures and Chargeoffs

Delinquencies(%)	Mortgage Bankers (10)	Commercial Banks (5)	Other (S & L's) (4)
60 days +	1.65% (6) (0.00 to 8.7%)	0.13% (4) (0.00 to 0.79%)	1.68% (3) (0.9 to 2.81%)
60-90 days	0.55% (6) (0.00 to 1.91%)	0.08% (4) (0.00 to 0.76%)	0.9% (3) (0.55 to 0.95%)
90-180 days	0.49% (6) (0.00 to 7.9%)	0.02% (4) (0.00 to 0.1%)	0.34% (3) (0.00 to 1.75%)
180 days +	0(Avg. 0.29%).(6) (0.00 to 2.21%)	0% (4) (0.00 to 0.00%)	0.11% (3) (0.00 to 0.79%)
Foreclosures (as % of)			
Outstandings (#)	0.09% (7) (0.00 to 7.1%)	0.12% (4) (0.00 to 0.27%)	0.27% (2) (0.00 to 0.5%)
Year Earlier Outstandings ($)	0.5% (5) (0.00 to 7.1%)	(Avg. 0.07% (4) (0.00 to 0.3%)	(Avg. 0.9%) (3) (0.00 to 2.8%)
Average Outstandings($)	0.1% (7) (0.00 to 11.4%)	0.6% (1) -----	(Avg. 0.47%) (3) (0.00 to 1.4%)
Year Earlier Outstandings ($)	6.3% (5) (0.1 to 10.1%)	(Avg. 0.2%) (3) (0.00 to 0.6%)	(Avg. 1.1%) (3) (0.00 to 3.4%)
Chargeoffs			
Gross Chargeoffs/ Average Outstandings	0.03% (7) (0.00 to 1.9%)	0.09% (1) -----	----- -----
Net Chargeoffs/ Average Outstandings	0.03% (7) (0.00 to 1.8%)	0.09% (1) -----	----- -----
Recoveries/Gross Chargeoffs	9.8% (4) (0.00 to 22.7%)	0% (1) -----	----- -----
Reserves			
As % of Net Outstandings	1.6% (3) (0.7 to 2.5%)	----- -----	0.17% (1) -----
As % of Gross Outstandings	0.76% (3) (0.7 to 1.9%)	----- -----	----- -----

cent or more, and a number reported substantial delinquencies more than 180 days past due.

As a general rule, foreclosure rates were quite low--with median rates of foreclosure from most lender groups close to one-fourth of one percent of year-end outstandings and one-third of one percent of year earlier outstandings. However, it again was clear that a number of lenders were experiencing substantial repayment problems, as quite a few lenders reported foreclosures on at least one percent of their outstanding loans.

Accompanying the fact that most lenders had low foreclosure rates, net chargeoffs of delinquent loans were quite low at most lenders. The majority had chargeoffs equal to less than one-third of one percent of their loans outstanding. Once again, however, a few lenders fared considerably worse, as several reported chargeoffs equal to two percent or more of their average balances outstanding.

For the most part, net chargeoffs were very close to gross chargeoffs, as reported recoveries most commonly ranged from 7 to 15 percent of gross chargeoffs. In one case, however, recoveries from charged-off loans in previous years exceeded 1981 chargeoffs.

Probably because chargeoff rates usually were low, most lenders held loss reserves equal to less than two percent of their balances outstanding.

The disparity between high delinquency, foreclosure, and chargeoff rates at a few lenders and the generally low median delinquency, foreclosure, and chargeoff rates suggests that second mortgage markets may be quite weak in some parts of the country. However, inadequate geographic information was obtained to determine where loss problems were most severe.

VII. A Concluding Note

The quality of data reported in this year's NSMA survey was generally higher than data reported previously. Thus, these statistics should provide a better insight into the characteristics of the newly emerging second mortgage markets than any previous studies. The reported data would be even more useful, however, if all NSMA members reported to the best of their ability on the questionnaire. In so doing, it would be most useful if they reported only data applicable to second mortgages whenever such data were requested. Finally, if individual firms kept separate data for each state in a manner that could be reported easily, in the future it might be useful to compile such information to determine if, indeed, certain parts of the country suffered more serious delinquency and loss problems than others. It also would be useful to obtain geographic data to determine if differences in loss rates could be related to differences in loan terms in different parts of the country.